

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Construction Code Authority	County Lapeer
Fiscal Year End 6/30/06	Opinion Date August 17, 2006	Date Audit Report Submitted to State 10/26/06	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

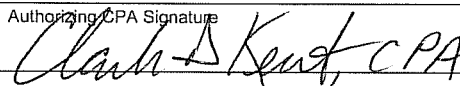
YES  
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) Brown & Kent, P.C.		Telephone Number 810-664-4470		
Street Address 951 S Main Street, Suite 3		City Lapeer	State MI	Zip 48446
Authorizing CPA Signature 		Printed Name Clark D. Kent		License Number 1101018986

**CONSTRUCTION CODE AUTHORITY  
LAPEER, MICHIGAN**

**FINANCIAL REPORT WITH ADDITIONAL INFORMATION  
FOR YEARS ENDED JUNE 30, 2006 AND 2005**

# CONSTRUCTION CODE AUTHORITY

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# BROWN & KENT, P.C.

## CERTIFIED PUBLIC ACCOUNTANTS

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### INDEPENDENT AUDITORS' REPORT

To the Board Members  
Construction Code Authority  
Lapeer, MI 48446

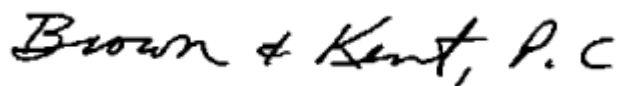
We have audited the accompanying financial statements of the business type activity and each major fund of Construction Code Authority ("CCA"), Lapeer, Michigan, as of and for the years ended June 30, 2006 and 2005, which collectively comprise the CCA's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of CCA's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business type activity and each major fund of Construction Code Authority, at June 30, 2006 and 2005, and the respective changes in financial position and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages II through V, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise CCA's basic financial statements. The accompanying other supplementary information, as identified, in the table of contents is presented for purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Certified Public Accountants

August 17, 2006

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

# CONSTRUCTION CODE AUTHORITY – LAPEER, MICHIGAN

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## **MANAGEMENT’S DISCUSSION AND ANALYSIS**

As management of the Construction Code Authority, Lapeer County, Lapeer, Michigan (the “Authority”), we offer readers of the Authority’s financial statements this narrative overview and analysis of the Authority’s financial activities for the fiscal year ended June 30, 2006. We encourage readers to consider the information presented herein in conjunction with the Authority’s financial statements.

### **Using this Annual Report**

This discussion and analysis is intended to serve as an introduction to the Authority’s basic financial statements. The Authority’s basic financial statements comprise three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. It also contains other supplemental information to provide greater detail of the data presented in the basic financial statements.

### **Government-wide Financial Statements**

Government-wide financial statements provide information about the activities of the Authority, presenting a broad long-term overview of the Authority’s finances, in a manner similar to a private-sector business. This longer-term view uses the accrual basis of accounting, so that it can measure the cost of providing services during the current year, and whether the permit holders and municipal consumers have funded the full cost of providing government services.

The Statement of Net Assets presents information on all of the Authority’s assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as useful indicators of whether the financial position of the Authority is improving or deteriorating.

The Statement of Activities presents information showing how the Authority’s net assets changed during the year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

The Statement of Net Assets and the Statement of Activities report the governmental activities for the Authority, which encompasses all of the Authority’s services

### **Reporting the Authority’s Most Significant Funds – Fund Financial Statements**

The Authority’s fund financial statements provide detailed information about the most significant funds, not the Authority as a whole.

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Some funds are required to be established by State law.

These fund financial statements present a short-term view; they tell us how the Authority’s resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Authority’s operations in more detail than the government-wide financial statements by providing information about the Authority’s most significant funds.

All of the funds of the Authority can be divided into two categories:

- (1) Enterprise Funds – The Authority maintains one type of enterprise fund to account for its inspections services. Enterprise funds provide the same type of information as the government-wide financial statements, only in more detail.

- (2) Fiduciary Funds – The fiduciary fund statements provide financial information about activities for which the Authority acts solely as a trustee or agent for the benefit of those outside the government. Fiduciary funds are not reflected in the government-wide financial statements, because the resources of those funds are not available to support the Authority's own programs.

### Notes to the Financial Statements

The notes that follow the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

### The Authority as a Whole

As noted earlier, net assets may serve over time as a useful indicator of the government's financial position. The following table shows, in a condensed format, the net assets as of June 30, 2006 and 2005.

	2006	2005
<b>Assets</b>		
Current Assets	\$ 339,775	\$ 285,050
Capital Assets – Net of Depreciation	711,925	726,074
<b>Total Assets</b>	1,051,700	1,011,124
<b>Liabilities</b>		
Current Liabilities	248,250	259,951
Long Term Liabilities	-	-
<b>Total Liabilities</b>	248,250	259,951
<b>Net Assets</b>		
Invested in Capital Assets	711,925	726,074
Reserved	19,201	19,201
Unreserved	72,324	5,898
<b>Total Net Assets</b>	<u>\$ 803,450</u>	<u>\$ 751,173</u>

The following table shows the changes of the net assets during the fiscal year ending June 30, 2006 and 2005.

	2006	2005
<b>Revenue</b>		
Program Revenues:		
Charges for Services	\$1,060,650	\$ 984,326
General Revenue		
Interest Income	7,837	4,938
Other Revenue	1,000	52,852
<b>Total Revenue</b>	1,069,487	1,042,116
<b>Program Expenses</b>		
Operating Expenses	1,017,210	973,540
Interest on Long Term Debt	-	7,222
<b>Total Program Expenses</b>	1,017,210	980,762
<b>Change in Net Assets</b>	<u>\$ 52,277</u>	<u>\$ 61,354</u>

The Authority's program revenues, as reported in the Statement of Activities, totaled approximately \$1,060,000, up approximately \$76,000 from the prior fiscal year. This is due largely in part to increased permits at the beginning of the fiscal year. Total program expenses, as reported in the Statement of Activities, totaled approximately \$1,017,000, up approximately \$44,000 from the prior year. Some of the major expenses increased were primarily due to an increase in the number of inspections that corresponded to the increase in the number of permits issued due to the above-referenced situations.

### **The Authority's Funds**

The Authority uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the Authority is being accountable for the resources municipal members and others provide to it and may provide more insight into the Authority's overall financial health.

The Authority completed this year with combined net assets of \$803,450, an increase of \$52,277 from last year.

The Enterprise Fund accounts for most of the Authority's government services. The most significant are providing inspections, which include building, plumbing, mechanical, and electrical.

### **Capital Asset and Debt Administration**

#### **Capital Assets**

At June 30, 2006 and 2005, the Authority had \$989,502 and \$952,845, respectively, invested in a broad range of capital assets, including land, buildings and equipment. This amount represents a net increase of \$36,657.

	2006	2005
Land and Improvements	\$ 78,325	\$ 78,325
Buildings and Improvements	778,675	749,305
Equipment	132,502	125,215
Total Capital Assets	989,502	952,845
Less Accumulated Depreciation	277,577	226,771
Net Capital Assets	<u>\$ 711,925</u>	<u>\$ 726,074</u>

The major additions this year include computers and accessories for approximately \$7,200, air conditioning for \$25,575, and updates to the security system for \$3,900. In 2005, the Authority sold vacant land that had a carrying cost of \$27,000. The land was sold for \$95,000 and after expenses resulted in a gain of \$52,700.

#### **Debt Administration**

As disclosed in Note 5 of the financial statements, the Authority had a land contract payable on their building. The land contract was paid off in 2005.



### **General Fund Budgetary Highlights**

Over the course of the year, the Authority amended the budget to take into account events during the year, which included an increase in inspection income due to commercial activity.

### **Economic Factors and Next Year's Budget**

We anticipate, as indicated by leading economic indicators, slowing property sales and a decrease in the number of permits issued in the final quarter of our 2005 – 2006 fiscal year that our activities will show a decrease. Next years budget anticipates decreased revenues as well as expenditures, due to the reduction of the number of permits being issued.

### **Contacting the Authority's Management**

This financial report is intended to provide our clients, customers and municipal membership with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the General Manager's office at 1075 Suncrest Drive, Lapeer, MI 48446.

## **BASIC FINANCIAL STATEMENTS**

**CONSTRUCTION CODE AUTHORITY  
STATEMENTS OF NET ASSETS  
JUNE 30, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
<b>ASSETS</b>		
Current Assets		
Cash and Cash Equivalents	\$ 303,379	\$ 230,484
Receivables		
Accounts	258	524
Interest	338	219
Employee	6,425	-
Prepaid Expense	24,036	23,075
Due from Trust & Agency Fund	5,339	30,748
Total Current Assets	<u>339,775</u>	<u>285,050</u>
Non-current Assets		
Capital Assets	989,502	952,845
Less: Accumulated Depreciation	<u>(277,577)</u>	<u>(226,771)</u>
Total Non-current Assets	<u>711,925</u>	<u>726,074</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 1,051,700</u></u>	<u><u>\$ 1,011,124</u></u>
<b>LIABILITIES</b>		
Current Liabilities		
Accounts Payable	\$ 7,416	\$ 10,809
Accrued Expenses	16,626	28,585
Compensated Absences	19,623	18,732
Deposits	4,000	4,000
Deferred Revenue	200,585	197,825
Total Current Liabilities	<u>248,250</u>	<u>259,951</u>
<b>TOTAL LIABILITIES</b>	248,250	259,951
Net Assets		
Invested in Capital Assets Net of Related Debt	711,925	726,074
Reserved	19,201	19,201
Unreserved	72,324	5,898
Total Net Assets	<u>803,450</u>	<u>751,173</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 1,051,700</u></u>	<u><u>\$ 1,011,124</u></u>

The accompanying notes are an integral part of the financial statements.

**CONSTRUCTION CODE AUTHORITY**  
**STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN**  
**RETAINED EARNINGS – ENTERPRISE FUND**  
**FOR YEARS ENDED JUNE 30, 2006 AND 2005**

	2006	2005
OPERATING REVENUES		
Inspection Fees		
Building	\$ 327,273	\$ 305,346
Plumbing	144,320	132,423
Mechanical	187,575	158,131
Electrical	149,835	151,477
Total Inspection Fees	809,003	747,377
Plan Review Fee		
Building	27,046	21,563
Plumbing	3,414	2,591
Mechanical	3,811	3,469
Electrical	2,962	3,053
Total Plan Review Fees	37,233	30,676
General Revenues		
Fire Prevention	6,788	9,055
Rental Fees	111,638	58,785
Zoning	23,347	26,398
Ordinance Enforcement	11,828	20,444
Addressing	6,578	9,659
Rental Income	24,834	22,300
Bond Forfeitures	5,366	36,240
Other	24,035	23,392
Total General Revenues	214,414	206,273
TOTAL REVENUES	1,060,650	984,326
OPERATING EXPENSES	1,017,210	973,540
OPERATING INCOME (LOSS)	43,440	10,786
NON-OPERATING REVENUES AND EXPENSES		
Investment Income	7,837	4,938
Gain on Sale of Assets	1,000	52,852
Interest Expense	-	(7,222)
TOTAL NON-OPERATING REVENUES AND EXPENSES	8,837	50,568
NET INCOME (LOSS)	52,277	61,354
RETAINED EARNINGS – BEGINNING OF YEAR	751,173	689,819
RETAINED EARNINGS – END OF YEAR	\$ 803,450	\$ 751,173

The accompanying notes are an integral part of the financial statements.

**CONSTRUCTION CODE AUTHORITY**  
**STATEMENTS OF CASH FLOWS – ENTERPRISE FUND**  
**FOR YEARS ENDED JUNE 30, 2006 AND 2005**

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Customers	\$ 1,038,842	\$ 969,564
Receipts from Rental Activity	24,834	22,300
Payments to Suppliers	(289,307)	(268,060)
Payments to Employees	(692,518)	(656,058)
Advances to Employees	(6,425)	-
Internal Activity – Payments from (to) Other Funds	25,409	(30,748)
Net Cash Provided By (Used In) Other Funds Operating Activities	100,835	36,998
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of Capital Assets	(36,658)	(15,896)
Proceeds from Sale of Assets	1,000	79,852
Principal and Interest Paid on Capital Debt	-	(160,601)
Release of Building Deposit	-	(10,000)
Net Cash Provided By (Used In) Capital and Related Financing Activities	(35,658)	(106,645)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received on Investments	7,718	4,924
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	72,895	(64,723)
CASH AND CASH EQUIVALENTS – Beginning of Year	230,484	295,207
CASH AND CASH EQUIVALENTS – End of Year	<u>\$ 303,379</u>	<u>\$ 230,484</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOW FROM OPERATING ACTIVITIES		
Operating Income	\$ 43,440	\$ 10,786
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation	50,806	48,449
(Increase) Decrease In:		
Receivable	(6,178)	7,088
Prepaid Expense	(961)	(2,632)
Due from Other Funds	25,409	(30,748)
Increase (Decrease) In:		
Payable	(3,393)	2,647
Accrued Expenses	(11,959)	4,195
Compensated Absences	891	(3,236)
Deferred Revenue	2,780	449
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>\$ 100,835</u>	<u>\$ 36,998</u>

The accompanying notes are an integral part of the financial statements.

**CONSTRUCTION CODE AUTHORITY  
STATEMENTS OF FIDUCIARY NET ASSETS  
JUNE 30, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
	<u>TRUST &amp; AGENCY FUND</u>	<u>TRUST &amp; AGENCY FUND</u>
ASSETS		
Cash and Cash Equivalents	\$ 14,086	\$ 56,924
TOTAL ASSETS	<u>\$ 14,086</u>	<u>\$ 56,924</u>
LIABILITIES		
Deposits	\$ 8,747	\$ 26,176
Due to General Fund	5,339	30,748
TOTAL LIABILITIES	<u>\$ 14,086</u>	<u>\$ 56,924</u>

The accompanying notes are an integral part of the financial statements.

## **NOTES TO THE BASIC FINANCIAL STATEMENTS**

**CONSTRUCTION CODE AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR YEARS ENDED JUNE 30, 2006 AND 2005**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Construction Code Authority (“CCA”), Michigan, established in 1983, is a governmental entity created under the constitution and statutes of the State of Michigan. Located in Lapeer, the CCA operates under an elected board, which consists of a chairman, vice chairman, secretary/treasurer, and two trustees. The CCA is contracted by numerous governmental units to provide inspections in various areas, including building, plumbing, mechanical, and electrical. Ownership is vested in cities, villages and townships, all of which are located in the counties of Lapeer, Genesee, and St. Clair, Michigan.

The accounting and reporting policies of the CCA, conform to accounting principles generally accepted in the United States of America applicable to state and local governments. The more significant accounting policies of CCA are described below.

**A. REPORTING ENTITY**

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure that financial statements are not misleading. The primary government of the CCA consists of all funds, departments, boards, and agencies that are not legally separate from the CCA.

**B. BASIS OF PRESENTATION**

**BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE STATEMENTS**

The CCA’s basic financial statements include both government-wide (reporting the CCA as a whole) and fund financial statements (reporting the CCA’s major funds). The government-wide financial statements categorize primary activities as either governmental or business type. All of the CCA’s activities are classified as business type activities. Fiduciary funds are not included in the government-wide financial statements.

In the government-wide Statement of Net Assets, the governmental activities column is presented on a consolidated basis and is reported on a full-accrual economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The CCA’s net assets are reported in three parts; (1) invested in capital assets net of related debt, (2) restricted net assets, and (3) unrestricted net assets. The CCA first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the CCA’s functions. General government revenues also support the functions. The Statement of Activities reduces gross expenses by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary grants. The costs by function are normally covered by charges to customers.



**CONSTRUCTION CODE AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR YEARS ENDED JUNE 30, 2006 AND 2005**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**B. BASIS OF PRESENTATION (Continued)**

**FUND FINANCIAL STATEMENTS:**

The CCA segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. These statements present each major fund as a separate column on the fund financial statements.

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses, and balance of current financial resources. The CCA has presented the following major governmental funds:

Enterprise Fund – This fund is used to account for operations (a) that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. This is the CCA's major fund.

Trust and Agency Fund – This fund is used to account for the collection and disbursement of performance and other deposits payable.

**C. MEASUREMENT FOCUS/BASIS OF ACCOUNTING**

Measurement focus refers to what is being measured, basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net assets and the operating statements present increases (revenues) and decreases (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned. Expenses are recognized at the time liability is incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

The revenues susceptible to accrual are franchise fees, licenses, charges for service, and interest income. All other Governmental Fund Type revenues are recognized when received.

**CONSTRUCTION CODE AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR YEARS ENDED JUNE 30, 2006 AND 2005**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**D. BUDGETS AND BUDGETARY ACCOUNTING**

The CCA Board follows these procedures in establishing the budgetary data reflected in the financial statements:

- (1) Prior to the beginning of the fiscal year, the board proposes an operating budget for each budgetary fund. The operating budget includes proposed expenditures and the means of financing them for the upcoming year, along with estimates for the current year. State statute requires that the budget be submitted in summary form. Also, more detailed line item budgets are included for administrative control.
- (2) The budgets are adopted by a majority vote of the CCA Board.
- (3) Formal budgetary integration is employed as a management control device during the year.
- (4) Budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

Amendments to the Budget are approved by the CCA Board, as necessary.

**E. CASH EQUIVALENTS**

The CCA considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

**F. INVESTMENTS**

All investments are recorded at fair value based on quoted market prices. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties.

**G. DEFERRED REVENUE**

Deferred revenue arises in governmental funds when revenue does not meet both the “measurable” and “available” criteria for recognition in the current period. In enterprise funds, this arises when resources are received by the government before it has a legal claim to them. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, revenue is recognized. Deferred revenue amounted to \$197,825, which is due to open permits that have inspections to be completed but have been paid for.

**H. INTERFUND TRANSACTIONS**

Legally authorized transfers are treated as interfund transfers and are included in the results of operations.

**CONSTRUCTION CODE AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR YEARS ENDED JUNE 30, 2006 AND 2005**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**I. CAPITAL ASSETS**

Capital assets, which include property, plant and equipment, are reported in the government-wide financial statements. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated Assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized. Interest has not been capitalized during the construction period on property, plant, and equipment.

Assets capitalized have an original cost of \$1,000 or more and over three years of useful life. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Buildings and Improvements	20-50 years
Equipment	5-10 years
Land Improvements	20 years

**J. NET ASSETS**

Net assets represents the difference between assets and liabilities. Net assets invested in capital assets consists of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the CCA or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

**K. ESTIMATES**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**L. ACCUMULATED UNPAID BENEFITS**

The CCA allows employees to accumulate vacation or sick time from year to year. The liability for the accumulated vacation and sick time is reflected in the financial statements as "Compensated Absences."

**CONSTRUCTION CODE AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR YEARS ENDED JUNE 30, 2006 AND 2005**

**NOTE 2 – CASH AND EQUIVALENTS AND INVESTMENTS**

**CASH AND EQUIVALENTS**

A summary of cash and equivalents as of June 30, 2006 and 2005 follows:

	Carrying Value	Bank Balance	Covered By FDIC Insurance
Demand Deposits	\$ 142,165	\$ 131,961	\$ 131,961
Petty Cash	300	-	-
Certificate of Deposit	175,000	175,000	175,000
	<u>\$ 317,465</u>	<u>\$ 306,961</u>	<u>\$ 306,961</u>

Bank balance does not reflect deposits in transit or outstanding checks.

FDIC Regulation Number 330.8 provides that deposits of a governmental unit are insured for the lesser of the amount of the combined deposit or \$100,000, in every financial institution that is not a branch location and that is a member of FDIC in the following deposit accounts:

- (1) All demand, non-interest bearing accounts (checking), in the name of the authorized or statutory custodian (treasurer) of public funds.
- (2) All savings deposits which include regular passbook, daily interest savings, and time certificates of deposit in the name of the governmental unit's custodian.

**NOTE 3 – RETIREMENT PLAN**

In lieu of social security, the CCA has established a defined contribution pension plan, which covers substantially all of the employees, that is administered through an insurance company. Eligibility for the plan requires 6 months of service and a minimum age of 18 years and a maximum age of 75 years. The annual contribution of the plan is equal to 15% of an employee's annual compensation up to \$40,000 in earnings. The employer contributes 50% of the annual contribution for the plan's first year and the employee contributes 50%. The employer contributions graduate each year thereafter up to a maximum of a full 15%. During the years ended June 30, 2006 and 2005, the CCA contributed \$44,768 and \$35,658, respectively, to the plan.

**CONSTRUCTION CODE AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR YEARS ENDED JUNE 30, 2006 AND 2005**

**NOTE 4 – CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2006 and 2005, was as follows:

	Balance 7-01-05	Additions	Deletions	Balance 6-30-06
Capital Assets Not Being Depreciated				
Land	\$ 73,000	\$ -	\$ -	\$ 73,000
Total Capital Assets Not Being Depreciated	73,000	-	-	73,000
Capital Assets Being Depreciated				
Land Improvements	5,325	-	-	5,325
Building and Improvements	749,305	29,370	-	778,675
Equipment	125,215	7,287	-	132,502
Total Capital Assets Being Depreciated	879,845	36,657	-	916,502
Less Accumulated Depreciation For				
Land Improvements	1,399	355	-	1,754
Building and Improvements	137,334	32,530	-	169,864
Equipment	88,038	17,921	-	105,959
Total Accumulated Depreciation	226,771	50,806	-	277,577
Total Capital Assets Being Depreciated, Net	653,074	(14,149)	-	638,925
Total Government Assets, Net	<u>\$ 726,074</u>	<u>\$ (14,149)</u>	<u>\$ -</u>	<u>\$ 711,925</u>

Depreciation expense was \$50,806 and \$48,448 for the years ended June 30, 2006 and 2005, respectively, and was charged as direct expense to operating expenses.

**NOTE 5 – LONG-TERM DEBT**

On June 26, 2000, the CCA entered into a contract, incident to the purchase of real estate, to pay to the seller of the real estate \$375,000 in monthly installments of \$3,584, including interest at 9.0% through July 2009. The seller, as security for the debt, holds title until the contract is paid in full. This contract was paid in full during the fiscal year ended June 30, 2005.

**NOTE 6 – RENTAL INCOME**

Effective July 1, 2003, the CCA entered into an agreement to rent a portion of their building located at 1075 Suncrest Drive, Lapeer, Michigan, for a period of three years. The lease expired on June 30, 2006, with an option to renew for two additional years. Currently, the lessee is renting on a month by month basis.

**CONSTRUCTION CODE AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR YEARS ENDED JUNE 30, 2006 AND 2005**

**NOTE 7 – RISK MANAGEMENT**

The CCA is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters.

The CCA carries commercial insurance for risks to cover these losses. The CCA also continues to carry commercial insurance for other risks of loss, including employee health and accident insurance.

**NOTE 8 – CONTINGENT LIABILITY**

The CCA is involved in various legal actions arising in the normal course of business. In the opinion of the CCA Board, such matters will not have a material effect upon the financial position of the CCA.

## **OTHER SUPPLEMENTAL INFORMATION**

**CONSTRUCTION CODE AUTHORITY  
BUDGETARY COMPARISON SCHEDULE – ENTERPRISE FUND  
FOR YEARS ENDED JUNE 30, 2006**

	BUDGETED AMOUNTS			VARIANCE FAVORABLE (UNFAVORABLE)
	ORIGINAL	FINAL	ACTUAL	
<b>OPERATING REVENUES</b>				
Inspection Fees				
Building	\$ 421,000	\$ 386,000	\$ 327,273	\$ (58,727)
Plumbing	154,200	144,200	144,320	120
Mechanical	214,000	194,000	187,575	(6,425)
Electrical	177,000	150,000	149,835	(165)
Total Inspection Fees	966,200	874,200	809,003	(65,197)
Plan Review Fees				
Building	24,000	24,000	27,046	3,046
Plumbing	5,400	5,400	3,414	(1,986)
Mechanical	4,500	4,500	3,811	(689)
Electrical	3,400	3,400	2,962	(438)
Total Plan Review Fees	37,300	37,300	37,233	(67)
General Revenues				
Fire Prevention	6,500	6,500	6,788	288
Rental	62,000	97,000	111,638	14,638
Zoning	20,000	20,000	23,347	3,347
Ordinance Enforcement	25,000	15,000	11,828	(3,172)
Addressing	9,000	7,000	6,578	(422)
Rental Income	22,300	22,300	24,834	2,534
Bond Forfeitures	9,500	-	5,366	5,366
Other	16,700	22,127	24,035	1,908
Total General Revenues	171,000	189,927	214,414	24,487
<b>TOTAL OPERATING REVENUES</b>	<b>1,174,500</b>	<b>1,101,427</b>	<b>1,060,650</b>	<b>(40,777)</b>
<b>OPERATING EXPENSES</b>				
Salaries				
Inspectors	436,600	455,200	428,519	26,681
Administrative/Office	259,104	252,704	243,396	9,308
Board	6,700	9,700	8,936	764
Benefits				
Deferred Compensation	12,561	12,851	11,842	1,009
Health Insurance	57,125	52,188	49,166	3,022
Life Insurance	2,357	2,161	2,019	142
Pension	46,272	44,600	44,768	(168)
Board Secretary	1,200	1,200	1,105	95
Capital Outlay	61,000	42,717	200	42,517
Computer Expenses	28,100	23,400	24,673	(1,273)
Contract Services	18,300	10,300	7,590	2,710
Depreciation	48,940	48,940	50,806	(1,866)
Education	8,100	12,425	2,374	10,051
Equipment Rental	10,000	6,700	6,489	211



**CONSTRUCTION CODE AUTHORITY**  
**BUDGETARY COMPARISON SCHEDULE – ENTERPRISE FUND**  
**FOR YEARS ENDED JUNE 30, 2006**

	<u>BUDGETED AMOUNTS</u>			<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>ACTUAL</u>	
OPERATING EXPENSES				
(Continued)				
Insurance				
Disability	\$ 7,260	\$ 6,856	\$ 7,210	\$ (354)
Errors & Omissions	7,955	7,955	10,143	(2,188)
General	2,500	2,500	2,669	(169)
Liability	7,955	7,955	10,143	(2,188)
Workers' Compensation	5,665	5,685	7,337	(1,652)
Janitorial Services	8,000	8,000	7,800	200
Lab Work	1,000	1,000	856	144
Legal & Professional	18,000	18,850	15,594	3,256
Miscellaneous	7,735	9,335	10,418	(1,083)
Office Supplies	11,000	9,500	8,034	1,466
Operating Supplies	6,000	3,900	2,604	1,296
Payroll Taxes	9,600	18,490	19,559	(1,069)
Repairs & Maintenance	8,500	7,800	6,881	919
Telephone	10,575	10,575	11,550	(975)
Utilities	19,440	16,440	14,529	1,911
	<u>1,127,544</u>	<u>1,109,927</u>	<u>1,017,210</u>	<u>92,717</u>
TOTAL OPERATING EXPENSES				
	46,956	(8,500)	43,440	51,940
OPERATING INCOME				
NON-OPERATING REVENUES AND (EXPENSES)				
Interest Income	3,860	7,500	7,837	337
Gain on Sale of Assets	-	1,000	1,000	-
Contingency	(50,816)	-	-	-
	<u>(46,956)</u>	<u>8,500</u>	<u>8,837</u>	<u>337</u>
TOTAL NON-OPERATING REVENUES AND (EXPENSES)				
	(46,956)	8,500	8,837	337
NET INCOME	<u>\$ -</u>	<u>\$ -</u>	52,277	<u>\$ 52,277</u>
RETAINED EARNINGS – Beginning of Year			<u>751,173</u>	
RETAINED EARNINGS – End of Year			<u>\$ 803,450</u>	

# BROWN & KENT, P.C.

## CERTIFIED PUBLIC ACCOUNTANTS

951 S. MAIN STREET, SUITE #3

LAPEER, MICHIGAN 48446

(810) 664-4470

FAX (810) 664-3601

August 17, 2006

Board of Directors  
Construction Code Authority  
1075 Suncrest Drive  
Lapeer, MI 48446

Dear Board Members:

We have completed our audit of the financial statements for Construction Code Authority for the year ended June 30, 2006. As a result of our audit, and in addition to our financial report, we offer the following comments and recommendations for your review and consideration. These items have been discussed with your administration.

### APPROVAL OF PAYROLL

An important element of internal control is approval of expenditures and payroll. Currently, the general manager approves payroll after paychecks have been prepared. It is recommended the general manager approve payroll before the preparation of payroll and initial and date the records to indicate approval.

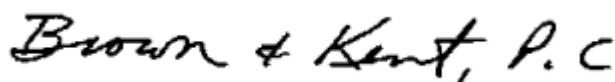
### NEW AUDITING STANDARDS

Recently, ten new auditing standards have been released and will become effective over the next two years. There are two new standards that may impact CCA beginning next fiscal year.

One of the standards revises the dating of the auditors' report. The old standards had reports dated the last day of fieldwork. The new standards define the date as the date adequate audit evidence is obtained. Adequate audit evidence is now being interpreted as including the client's approval of the draft financial statements. This new standard impacts an auditors' subsequent events work, which is from June 30 through the date of the auditors' report. The impact to the CCA could be if there was a long period of time needed to resolve certain open issues. This would extend the dating of the auditors' report and increase the amount of work we need to complete our subsequent events work.

The other standard that may impact CCA is related to our communications with you. The new standard includes examples of strong indicators of a "significant deficiency." One example is the client is unable to write financial statements, including the footnotes, in accordance with generally accepted accounting principles. Historically, we have prepared the financial statements and footnotes for CCA. We will have to evaluate CCA ability to produce financial statements and footnotes. We will continue to monitor these standards.

We would like to thank the staff for the courtesy and assistance extended to us during our audit. We would be happy to answer any questions you have regarding the annual financial report, and would be pleased to discuss the above comments and recommendations at your convenience.



Certified Public Accountants